



127th ANNUAL REPORT  BOSTON AND MAINE RAILROAD 1959

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127th ANNUAL REPORT 1959

for year ending December 31

BOSTON AND MAINE RAILROAD

BOARD OF DIRECTORS

OLIVER D. APPLETON, Mount Kisco, N. Y.
ANDREW J. BECK, Presque Isle, Me.
DANIEL A. BENSON, Weston, Mass.
ANTHONY R. CATALDO, Lexington, Mass.
BURTON M. CROSS, Augusta, Me.
JOHN S. DAWSON, Fairfield, Conn.
A. E. HAROLD FAIR, Chestnut Hill, Mass.
ALONZO R. GILE, Franklin, N. H.
GEORGE F. GLACY, Brookline, Mass.
JOHN C. GLIDDEN, Englewood, N. J.
W. EARLE GOSS, Franklin, N. H.
NATHAN GREVOR, Franklin, N. H.
RODNEY A. GRIFFIN II, Franklin, N. H.
WILFRED N. HADLEY, Springfield, Vt.
EDWARD KROCK, North Brookfield, Mass.
PATRICK B. MCGINNIS, Staten Island, N. Y.
PATRICK J. MULLANEY, Winchester, Mass.
FRANCIS J. REARDON, Belmont, Mass.
MAURICE A. TRAVERSE, Brookline, Mass.
JOHN A. VOLPE, Winchester, Mass.
JAMES A. WALSH, Greenwich, Conn.

OFFICERS

OLIVER D. APPLETON, Chairman of the Board of Directors
PATRICK B. MCGINNIS, President
DANIEL A. BENSON, Vice President-Operations
GEORGE F. GLACY, Vice President-Accounting and Finance
PATRICK J. MULLANEY, Vice President-Traffic
RALPH W. PICKARD, Vice President-Personnel
E. FRANKLIN REED, Vice President-Industrial Development
MAYNARD W. BULLIS, Clerk of the Corporation
NEAL J. HOLLAND, General Counsel
THOROLD S. CURTIS, Treasurer
ERNEST K. BLOSS, Director, Research and Development
THOMAS K. DYER, Chief Engineer
A. B. VIRKLER LEGATE, Executive Assistant to the President

TRANSFER AGENTS

Old Colony Trust Company, 45 Milk Street, Boston
The Hanover Bank, 70 Broadway, New York

TO OUR STOCKHOLDERS:

During the first two months of 1959, the Boston and Maine Railroad was still feeling the effects of the economic recession of 1957-58, and our deficit at the end of February, 1959 stood at \$1,228,555.

The picture then brightened, and net income was produced for the months of March, April, May and June.

But, the strike in the steel industry in mid-summer and its devastating results were quickly felt.

In July, we experienced a deficit of \$608,193, and during each of the succeeding two months we reported a continuing deficit.

The steel strike was halted in the late fall and we reported modest net income for October and November.

In December of 1959, we reported a deficit figure, over 70% of which was attributable to non-recurring year-end adjustments.

The over-all picture as affects your company has several optimistic aspects.

Most important, the passenger deficit seems on its way to solution. The Boston and Maine Railroad's 1954 passenger deficit was more than \$15,000,000. The 1958 deficit was \$9,635,997. The 1959 deficit fell to an estimated \$7,500,000.

In addition to its attack on the passenger deficit, your company has taken vigorous steps to get rid of all unprofitable services, old equipment, land and passenger stations that are not needed, taxes that are discriminatory and expenses that are unnecessary or wasteful.



Patrick B. McGinnis, President

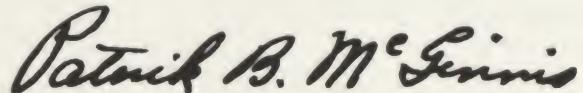
Your management has faced up to its largest financial problem—i.e., the maturity of \$49,885,800 of First Mortgage Bonds, due July 1, 1960 and April 1, 1961. The Railroad filed in September, 1959 with the Interstate Commerce Commission a plan of modification which would allow it to extend its maturity. Our large bondholders are agreeable to this plan.

The Interstate Commerce Commission approved the plan on February 25, 1960. During April and May of 1960 the plan will be submitted to the Series RR and Series JJ bondholders as one class for the required assents.

The management has maintained the roadbed and equipment, and there is very little deferred maintenance. It has entered the various piggyback plans with the greatest of enthusiasm. It has purchased the equipment necessary to modern railroad operation. It has reduced its operating expenses to an enviable degree.

The year 1960 should be a profitable one for the Boston and Maine Railroad.

Sincerely,

A handwritten signature in black ink, appearing to read "Patrick B. McGehee".

March 11, 1960
Boston, Mass.

REVIEW OF 1959

Our operating revenues amounted to \$71,994,862, or 7.25 per cent less than the \$77,435,364 realized in 1958. Operating expenses were \$58,565,915 in 1959, or 9.37 per cent less than the 1958 expenses of \$63,524,283.

Net railway operating income decreased to \$1,219,035 from \$1,914,238 reported a year earlier. After non-operating income, \$1,458,925 remained available for fixed charges compared with \$2,220,453 in 1958. After fixed and contingent charges, the net deficit was \$3,765,352 compared with a net deficit of \$3,242,207 in 1958.

RENTS

Rents payable in 1959 totalled \$6,330,618, compared with \$5,975,577 reported a year earlier. Hire of freight cars amounted to \$5,895,894 as against \$5,558,312 during 1958. Joint facility rents were \$505,489 during 1959, compared with \$501,549 in 1958.

In the previous annual report you were advised that the Supreme Court of the United States upheld a District Court decision which found that the reasonableness of the freight car Per Diem rates had not been established and that the Interstate Commerce Commission had erred in failing to set forth in detailed findings its reasons for rejecting a time-mileage plan proposed by the Boston and Maine as being more equitable than the plan approved by the Commission. The case was remanded by the Court to the Commission for further study. The Commission is presently requiring all railroads to submit data pertaining to freight car ownership costs. The study detail requested applies to the year 1960. No Commission decision is expected before 1962.

Meanwhile, the Association of American Railroads adopted an increase in the Per Diem rate from \$2.75 to \$2.88, which became effective December 1, 1959. Your railroad is not a party to the Per Diem provisions of the Car Service agreement and will continue to settle with the various railroads on the basis used since August 1, 1953.

In the early fall of 1959, a number of the creditor railroads brought suit in New York State against your railroad, as well as against other debit railroads, apparently for the purpose of tolling the statute of limitations. These defendant railroads have answered, and have filed cross-complaints alleging, among other things, anti-trust law violation.

TAX ACCRUALS

Railway tax accruals aggregated \$5,879,294 in 1959, compared with \$6,021,266 in 1958.

In 1959, Federal income taxes amounted to a net charge of \$173,829, and principally represented our tax on leased lines rentals. This compared with a net credit balance of \$36,431 reported a year earlier, such credit balance being due to an adjustment in 1958 of prior years' federal income taxes. No similar net credit resulted in 1959, but final settlement was accomplished in 1959 with the Internal Revenue Service covering our tax returns for the years 1942-1954, with resultant net cost to the railroad of \$134,280, made up of \$55,839 tax and \$78,441 interest. The revenue agent's report has been received covering tax returns for the years 1955-1957, and a favorable final settlement is contemplated in the next few months. The railroad no longer is faced with payments of income taxes applying to years prior to 1957.

Payroll taxes for employee retirement, unemployment and sickness benefits amounted to \$2,820,519 in 1959, compared with \$2,748,660 in 1958, a net increase of \$71,859.

On April 29, both the Senate and the House passed bills increasing Railroad Retirement and Unemployment benefits, effective June 1, 1959.

The increase in Retirement, financed jointly by both employees and the Railroad, was a flat 10%. The retirement tax rate was increased from 6½ to 6¾ per cent, and the individual employee maximum taxable income was increased from \$4,200 to \$4,800 annually. In spite of these increases, the retirement tax for 1959 decreased by \$118,447 from the 1958 retirement tax.

However, this saving was more than offset by an increase of \$190,306 over the 1958 unemployment and sickness benefit tax. Due to the action of Congress, unemployment benefits, financed solely by the Railroad, were boosted an average of 20%, effective January 1, 1959, the rate going from 2½ to 3%, and calling for an additional increase, effective June 1, 1959, to 3¾%, with a corresponding increase in individual employee taxable income from \$4,200 to \$4,800 annually.

The provision made for taxes is shown in the following table:

| | 1959 | 1958 |
|---------------------------------|-------------------|-------------------|
| State and Municipal Taxes | \$2,869,996 | \$3,290,937 |
| Federal Payroll Taxes | 2,820,519 | 2,748,660 |
| Federal Income Taxes | 173,829 | 36,431 Cr. |
| Other Taxes | 14,950 | 18,100 |
| Total | <hr/> \$5,879,294 | <hr/> \$6,021,266 |

This table illustrates that total taxes in 1959 were \$141,972 less than total taxes in 1958, in spite of the fact that taxes in general, especially payroll and ad valorem taxes, rose during that period.

The reduction is largely due to our efforts to follow the overall tax picture closely, and a specially-assigned group of employees, the Ad Valorem Tax Group, continues to study and recommend for disposal all surplus properties not necessary to industrial development or general railroad operation.

OPERATING RESULTS

Gross ton miles for the year 1959 decreased 0.7% compared with 1958, while net ton miles show an increase of 2.1%, owing to a 2.2% increase in the proportion of loaded cars to total cars handled and a 2.5% increase in the average carload.

Train miles operated in 1959 decreased in about the same ratio as that shown in gross ton miles, holding the average trainload to a figure practically identical to that of 1958.

As the train hour production figure (gross ton miles per train hour) is the product of trainloads and speed, it was also, for all practical purposes, the same as the 1958 figure, which was an all-time high record.

PASSENGER BUSINESS

Passenger revenue declined from \$8,683,199 in 1958 to \$7,088,480 in 1959, a decrease of 18.4%.

Revenue from commutation passengers amounted to \$2,440,365, a decrease of 13.6% from 1958; and revenue from all other passengers amounted to \$4,648,115, a reduction of 20.7% from 1958.

The decline in number of passengers carried from 1958 to 1959 was 14.4% in the case of commuters and 22.7% in all other revenue passengers.

Continuation of the downward trend, which has taken place since the end of World War II, made further reductions in train service necessary.

Although passenger revenue has shown a constant decline during the last five years, the loss of revenue has been dwarfed by the operating savings which have been achieved as indicated in the following table showing the passenger deficit since 1954:

| | <i>Passenger Deficit</i> | |
|------------|--------------------------|-----------------------------|
| | <i>Amount</i> | <i>Reduction Below 1954</i> |
| 1954 | \$15,159,263 | \$ — |
| 1958 | 9,635,997 | 5,523,266 |
| 1959 | 7,500,000 (est.) | 7,659,263 |



New Boston and Maine Railroad car-icing machine located at Mechanicville, New York facilities.

New Boston and Maine Piggyback facility built during 1959 at Holyoke, Massachusetts.



FREIGHT BUSINESS

Freight revenue in 1959 amounted to \$58,555,840, a decline of 1.8% from 1958. The volume of freight handled, as measured in revenue ton miles, increased 2.3%, while revenue per ton mile declined from 2.33¢ in 1958 to 2.24¢ in 1959. The decline in revenue per ton mile, which accounts for the reduction in revenue despite an increase in volume, is attributable mainly to loss in traffic yielding higher-than-average revenue and reductions in rates to maintain volume in the face of competitive conditions.

The year 1959 was one of frustration for the eastern railroads, and the Boston and Maine was no exception. The first six months saw a slow but definite improvement in the general traffic picture, which became more pronounced in the late spring. The situation was entirely reversed in the last six months as the impact of the steel strike affected not only the movement of steel itself but many kinds of semi-finished and finished materials, the haulage of which generally yields attractive revenue to the railroads.

Another serious blow was the advent of the large-scale trucking of cement, which previously had moved almost entirely by rail into the territory served by this company. The importation of cement through various New England port cities has increased, which has reduced rail haulage and has had a disturbing effect upon the distribution from domestic mills. This company has been vigorous in combating the adverse effect of these developments through joining in reduced rates and other arrangements established to encourage the handling of cement by rail. The Boston and Maine does not originate any cement and must therefore work with other railroads in making adjustments affecting receivers in its territory.

Major reductions in the rates on export grain, newsprint and other papers, salt, sugar and various other commodities were made in 1959, or are in process of adjustment. These have been made necessary by a wide variety of developments, such as the St. Lawrence Seaway, competition between domestic and foreign producers, competition between New England producers, producers in other sections of the country and rail competition with public and private trucking.

During the fall, a report of an Interstate Commerce Commission examiner was issued in Investigation and Suspension Docket 6615, the so-called Port Parity case, in which the ports of Boston and New York are seeking a parity of rates with the Port of Baltimore on import and export traffic. The examiner recommends continuation of the present port differentials on the grounds that the Port of New York now handles a preponderance of the general cargo traffic in spite of the differential, and that New York and the New England ports must be considered as a group. Exceptions to this are being taken, and it is felt that there are many conclusions reached by the examiner in his report which are favorable to the position of the Port of Boston that it should be on a rate parity with Baltimore to and from the Middle West.

The Boston and Maine, together with the other carriers in the East, is attempting to secure a larger division of freight revenue on traffic moving inter-territorially between the East and the Pacific Coast-Rocky Mountain areas and also between the East and the South. These division cases are in various stages of advancement, and it is impossible at this time to foretell what the outcome will be or how much additional revenue the Boston and Maine can expect to obtain from these sources.

PIGGYBACK

There was a further expansion in the handling of piggyback traffic during the year. The Plan I volume of trailers of common carrier truckmen improved. The Plan II complete service from shipper's to receiver's door increased more than 50%. The principal gain, however, was in Plan III which, at the year's end, accounted for over 40% of the total piggyback traffic. Under Plan III, trailers either owned or leased by shippers are handled by the rail carriers from ramp to ramp only.

The increase in Plan III volume was accomplished in spite of the inability of the rail carriers to broaden the comparatively narrow areas into which this is now confined because of restrictions placed upon them by the Interstate Commerce Commission, which has the entire Plan III arrangement under investigation. If Plan III is sustained, the management is confident that, when extended to its full potential, it will be productive of a large amount of additional traffic for this railroad.

During the year there was a further extension of the territory covered by our piggyback arrangements, and negotiations are under way for additional coverage between New England and points in the South and Southwest, as well as Canada. The possibility of combining piggyback with air freight is also being studied.

A new piggyback facility was opened at Holyoke, Massachusetts, during the fall. This terminal has depressed tracks requiring no ramps and a track layout which eliminates the need of turning cars, which ordinarily involves both expense and loss of time. Its location provides ready access to the heavily-industrialized Connecticut River Valley. Further improvements have also been made in our piggyback yard at East Cambridge, Massachusetts, which serves the Boston metropolitan area. Increased storage area for trailers has been provided, as well as additional track and ramps, including one portable ramp, which eliminates the need of turning cars at Boston or enroute.

The handling of piggyback traffic between our ramps at Boston, Worcester and Holyoke and points west of the Boston and Maine has been speeded through the operation of special through trains to handle piggyback shipments, and the expedited service has already shown its value in attracting additional traffic. This is particularly important because of the ever-increasing demand for the handling of perishables in piggyback service.

Considerable quantities of fresh meat are already being handled, and there is indication that a large proportion of the meat entering the New England market will eventually move in this manner.



Aerial view of Boston, showing:

1. Northern Artery.
2. Food Centre Wholesale Grocers, Inc. warehouse and distribution plant at Charlestown, Massachusetts.
3. Twenty-one acre site, located in our Boston Terminal area, sold during 1959 to Joseph M. Linsey for industrial development purposes.
4. Lechmere Square, Cambridge, Massachusetts.
5. New facility of Boston Sand & Gravel Company, to be located in our Yard 1.
6. Eastern Salt Company's new bulk storage and distribution facilities at Charlestown, Massachusetts.
7. Mystic Wharf property under lease to Michael Schiavone & Sons Company.
8. North Station.
9. Site of new urban development project being constructed in Boston by the Prudential Life Insurance Company of America.

Because of the growing importance of piggyback, a separate sales organization, with representatives in Boston and Holyoke, Mass., Chicago, Ill., and St. Louis, Mo., has been established. These men are specialists in the field of co-ordinated truck and rail service and augment the regular sales force of the Railroad, which was reorganized during the fall of 1959 to improve our sales effort in both our own territory and other parts of the country.

INDUSTRIAL DEVELOPMENT

A marked improvement was noted in industrial development activities in 1959, continuing the upturn which started in the last quarter of 1958.

Increased new traffic of over 15,000 cars per year is expected to result from new and expanded industrial activity in 1959.

Several hundred thousand square feet of new warehouse space and office facilities for some of the fast-growing food distributors in the northern New England area were constructed or started in 1959. These include such concerns as Food Centre Wholesale Grocers, Inc., I.G.A. Distributors such as Hannaford Brothers and Cressey-Dockham Company, United National Cooperative Grocers and other well-known food concerns.

A total of 21,497 feet of new trackage was installed during the year to serve the requirements of industry. Approximately 7,087,009 square feet of land were sold for industrial use.

The growth of new industry along Route 128, the circumferential highway ringing Boston, continued throughout the year. One of the important developments in this area was the opening up of a large tract of over 50 acres of land in Woburn, Massachusetts, adjacent to the main line of the railroad and Route 128, on which three substantial industries will establish new plants and, in addition, will provide areas for further expansion and development.

The development of a new 70-acre industrial park at South Portland, Maine, has been started. The Boston and Maine has actively participated in this development. A new four-acre food distribution center terminal for Hannaford Brothers is now under construction in the area.

The unfolding of the program of new major highway systems will open up other new industrial sites adjacent to the railroad, with improved highway access, and should give added impetus to industrial development in Boston and Maine territory.

The program to reduce taxes and maintenance costs through the sale of surplus land and other properties was continued throughout the year, with further favorable results. An outstanding example of this was the sale of our passenger station and car repair shops in Concord, New Hampshire.

The Boston and Maine benefits from the property sale, the important savings in maintenance costs and taxes, and the new traffic from industries who will occupy the properties. The city of Concord will benefit from the development of a huge shopping and parking area on one property and various new industries on the other property, thus gaining new payrolls, additional taxable values from

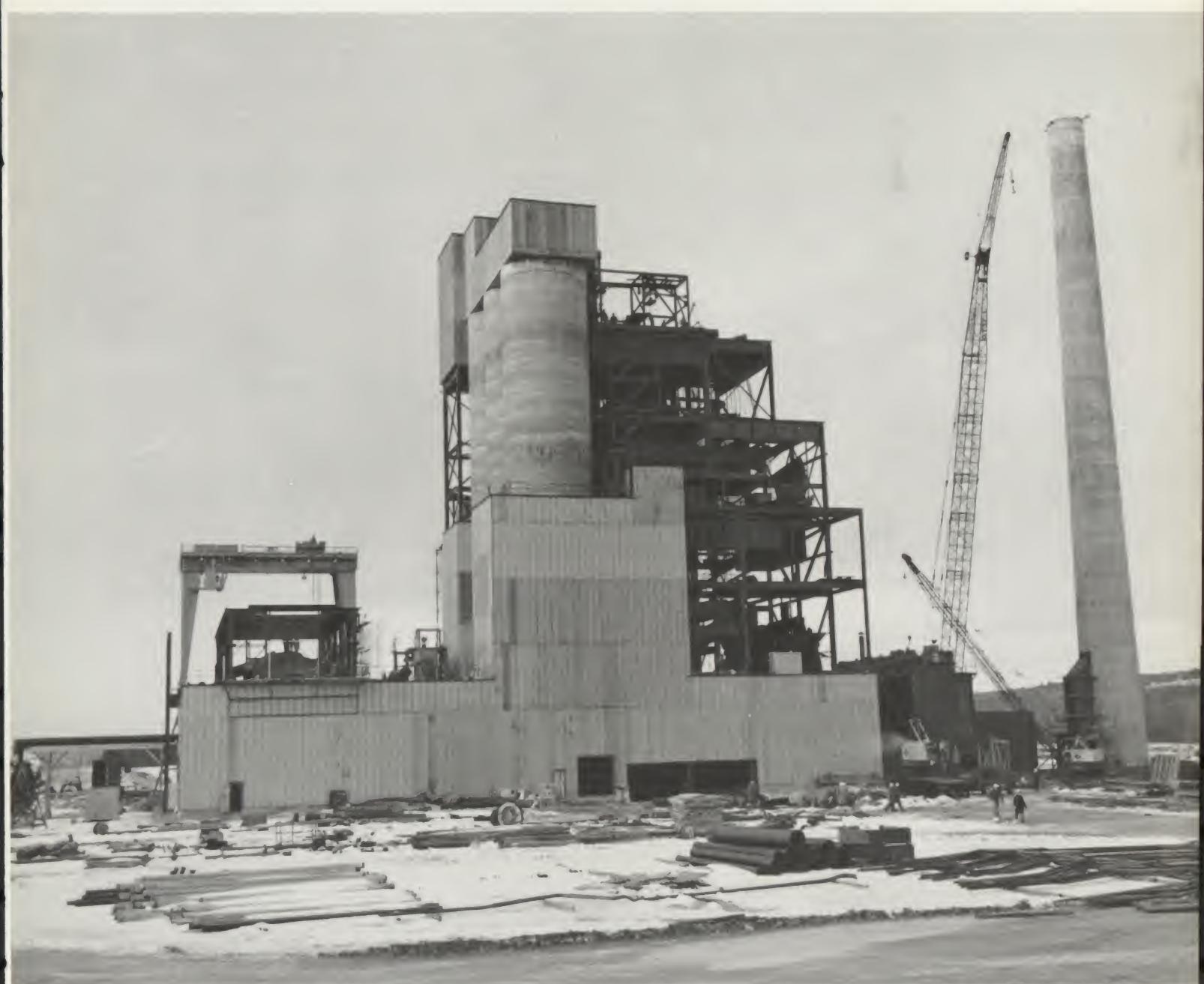


Left:

Steam generating power plant being constructed at Mount Tom, Massachusetts by the Holyoke Water Power Company, due to go into operation during 1960.

Opposite:

Steam generating power plant being constructed at Bow, New Hampshire by the Public Service Company of New Hampshire, due to go into operation during 1960.



new construction, and the business stimulant and magnetism of a large, completely modern shopping center close to the heart of the city.

The 75-year-old passenger station, a huge rambling granite block and brick edifice with extensive train shed, rich in history but obsolete as a modern railroad depot, will be razed immediately, along with various adjacent buildings.

The purchasers of the station site built, and have assumed the cost of maintenance of, a modern, attractive passenger station for the railroad. A new freight house will also be constructed by the purchasers and turned over to the railroad.

The railroad's former car shops, together with a 50-acre tract of land, located a mile south of the passenger station, have been acquired by a development corporation.

Some of the shop buildings are equipped with crane facilities and are ideally suited for heavy industrial use, and the entire area is served by rail facilities adequate to meet the needs of any type of industrial activity.

Located nearby is another parcel, the former locomotive repair shop location, which has also been sold and which will be used for fabricating and warehousing of structural steel for New Hampshire industries.

These properties and the expected rapid development of the car repair shops area for industrial use give promise of good future business for the railroad, another example of turning obsolete and unused facilities to the advantage of both the railroad and the territory it serves.

EMPLOYEE RELATIONS

The three-year moratorium contained in contracts with the several labor organizations representing employees of the company expired November 1, 1959. The brotherhoods have served requests for increases in rates of pay averaging about thirty cents an hour.

Non-operating organizations also have filed notice for improved vacation and holiday rules, and for improvements in medical and hospital insurance. These cases are being handled by regional conference committees on a concerted basis for trunk line carriers.

The nation's railroads, on November 2, 1959, served notices on the operating brotherhoods to modernize work rules which presently hamper efficient operations in the following areas:

- (a) Rules governing the basis of pay, assignment (or runs) of all classes of operating employees, and combination of road and yard service.
- (b) Rules and agreements requiring the use of firemen (helpers) on other than steam power in freight and yard service, and
- (c) Rules, agreements and practices which require the use of a stipulated number of employees in road or yard crews or the use of engine, train or yard service employees on track motor cars or self-propelled roadway or shop equipment.

The carriers' rule proposals are also being handled by the regional conference committees under the provisions of the Railway Labor Act.

The provisions for escalation at six-month intervals, based upon changes in the cost-of-living index, resulted in an increase in wages of three cents an hour, effective November 1, 1959.

PHYSICAL PLANT

A. SHOPS

The railroad, through its agreement to develop the station-shops area for commercial and industrial development, was relieved of any obligation to continue car maintenance operations at Concord, New Hampshire. Work at the Concord Shops ceased on January 16, 1959 and was transferred to the Billerica, Massachusetts Shops.

This has been very beneficial to the railroad through the reduction in overhead expense and increased efficiency of car repair operations.

On March 31, 1959, it became possible to close the East Cambridge passenger car repair shop and transfer the work to the Yard 8 freight car repair shop, resulting in considerable savings and increased efficiency.

B. NEW EQUIPMENT

During 1959, thirty-eight modern, all-steel cabooses were purchased to replace cabooses built as long ago as 1891.

Orders have been placed for the purchase of and delivery by September, 1960, of twenty additional new steel cabooses. Arrangements also have been completed for the leasing of forty flat-cars for piggyback use.

C. IMPROVED SERVICES

A program for the installation of automatic refueling equipment on locomotives and Budd cars was substantially completed during 1959. The remaining small amount will be completed in the near future.

The use of this equipment makes possible a considerable saving, eliminates the waste of fuel oil by spillage, and reduces fire hazard from oil-soaked ground at our facilities.

D. CAR-ICING MACHINE

At Mechanicville, New York, the railroad has installed a new icing machine to serve refrigerator cars carrying perishable freight with a minimum of delay and expense.

Under the old system, it was necessary to switch such cars out of the train in the receiving yard, take them to the ice track facility and then switch them back to the classification yard.

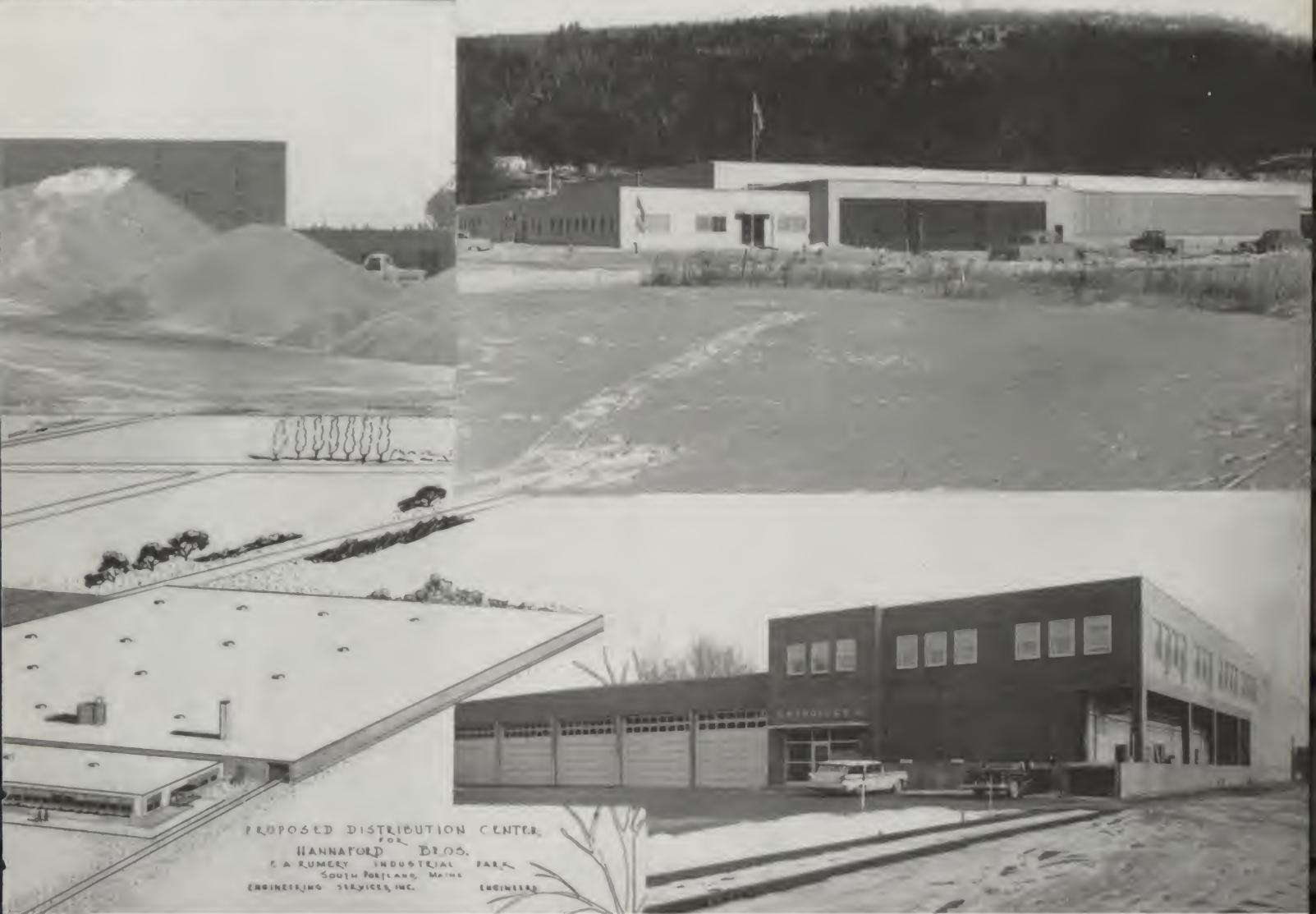
With the new installation, all this is eliminated. An inbound train with cars requiring icing is stopped with the cars to be serviced alongside the icing machine. While the train is being inspected, the icing is completed.

The installation greatly expedites service to shippers and results in considerable savings in yard-operating expenses.



This composite photograph shows several major plants, located on our lines, construction of which began and/or was completed during 1959:

Top row: International Business Machines Corporation punch card manufacturing plant at West Concord, Massachusetts.
Holyoke Water Power Company steam generating plant at Mount Tom, Massachusetts.
Food Centre Wholesale Grocers, Inc. warehouse and distribution plant at Charlestown, Massachusetts.



Middle row: Eastern Refractories Company warehouse and distribution plant at West Cambridge, Massachusetts.

Eastern Salt Company's new bulk storage and distribution facilities at Charlestown, Massachusetts.

Holbrook Grocery Company's new warehousing and distribution facilities at Keene, New Hampshire.

Bottom row: Cressey-Dockham Company's new food sales warehouse and distribution plant at Salem, Massachusetts.

Proposed distribution center for Hannaford Brothers at South Portland, Maine.

C. A. Cross Company's new food sales, distribution and storage plant at Leominster, Massachusetts.

PROPERTY IMPROVEMENTS

During 1959, in spite of the fact that the company was still experiencing the ill effects of the economic recession during the early months of the year, as well as the devastating effects of the steel strike that began in mid-summer, your management determined that it was not in its best interests to interrupt the program of bettering its roadbed and, hence, 43 track miles of main line track were ballasted with new stone, as opposed to 34 miles the year before. In addition, there were 110.6 track miles of main line track re-surfaced, as compared with 129.5 miles the year before. This work of ballasting and re-surfacing involved the application of 133,015 tons of crushed stone, as compared to 113,880 tons used in 1958.

New and relay rail laid during 1959 totalled 2,957.1 tons, compared with 2,967.9 tons laid during the previous year.

A total of 34,740 new cross ties were installed in 1959, as opposed to 56,297 the year previous.

The Central Massachusetts Branch of the Railroad, running for 5.6 miles between Berlin and Clinton Junction, Massachusetts, and a 7.6 mile segment of the former Worcester-Hillsboro Branch, running between Heywood and Winchendon, Massachusetts, were both physically retired.

Thirteen public highway crossings were eliminated and two new ones were installed during the year.

Automatic highway crossing protection installations were installed at 17 different public highway crossings in 1959.

In addition, the management's campaign to eliminate manual protection at grade crossings has resulted in substantial wage savings.

Of vital importance was the elimination of 83 additional private crossings during the year, making a total of 741 that have been closed since the present management initiated this campaign nearly four years ago. The potential claims arising from accidents at these crossings are of such importance that it is imperative to continue our program of closing them.

Hot-box detectors, which are automatic devices used for the detection of hot-boxes in moving freight trains, were installed at eight locations, making a total of nine on the Railroad. Through the use of this equipment, several possible derailments may have been avoided.

Centralized traffic control was installed on the Fitchburg freight cut-off, between Hills Crossing and Somerville Junction, Massachusetts. Centralized traffic control and single-tracking between Greenfield, Massachusetts and Johnsonville, New York is in progress. Thus far, five miles of double track have been replaced by five miles of single track. Centralized traffic control and automatic gate protection were approved for installation at Dover, New Hampshire, during 1959 and will be completed in 1960.

Centralized traffic control to provide for single-tracking from Rollinsford, New Hampshire to North Berwick, Maine is in the

process of installation at the present time. This will make possible the removal of 17.6 single track miles of main track.

The main line freight radio system was expanded with the installation of seven base wayside stations licensed by the Federal Communications Commission. These are located in Boston and Mechanicville and in signal towers at Waltham, Ayer, Lawrence, Gardner and East Deerfield, Massachusetts. The radio stations at Lawrence, Ayer and East Deerfield provide also a means of contacting train crews in the event an indication is observed on the hot-box recorders installed in these towers.

Additional new work equipment and roadway machinery was purchased during the year, which should result in greatly-increased productivity.

In previous annual reports, mention was made of the continuing studies made by the Facility Study Project Group. During 1959, their findings resulted in the discontinuance or dualization of several agencies, producing estimated annual savings of \$170,000. Several other agencies have been studied and similar recommendations have been made, which are expected to result in an estimated additional \$130,000 in annual savings.

THE MYSTIC TERMINAL COMPANY

The 1958 annual report to the stockholders advised that a contract had been made with Boston Marine Terminal Corporation, covering the operation of pier and elevator facilities leased by the Railroad from the Commonwealth of Massachusetts.

Due in part to long delays arising from the suit brought by Bay State Stevedoring Company, and other conditions beyond the control of either the Railroad or Boston Marine Terminal Corporation, the contract did not become fully effective, and has now been cancelled.

The Mystic Terminal Company, a subsidiary of the Railroad, is now operating the property.

BOSTON & MAINE TRANSPORTATION COMPANY

This wholly-owned subsidiary is now relieved of all its former passenger operations, and is concentrating on trucking.

The company is expanding its participation in the piggyback operation of the Railroad, with mutual benefits. Meanwhile, the operations and personnel of the subsidiary are in the process of reorganization, and new equipment has been purchased, all of which should result in reduced expenses and increased efficiency.



Old passenger station at Concord, New Hampshire.



New passenger station at Concord, New Hampshire.



Proposed new Capitol Shopping Center, to be constructed on site of former car repair shops at Concord, New Hampshire, with ground-breaking ceremonies tentatively planned for March 15, 1960.

RESEARCH AND DEVELOPMENT

Your management, taking cognizance of the swiftly-growing electronics business in New England, the rapidly-developing program of utilizing and testing of missiles and rockets by the Federal Government and the huge participation by industry itself in technological developments, decided that the Boston and Maine organization warranted the addition of a department of research and development.

Accordingly, on April 1, 1959, such a department was established.

MISCELLANEOUS DEVELOPMENTS

1. Previous annual reports to our stockholders have mentioned the new steam-generating power plants being built at Mount Tom, Massachusetts by the Holyoke Water Power Company, and at Bow, New Hampshire by the Public Service Company of New Hampshire. These two plants will go into operation in 1960.

2. The scope of electronic-mechanical data-processing applications continues to advance in the major paperwork areas of freight, disbursements and car accounting. All payroll procedures have been mechanized, including those of our subsidiary companies.

A feasibility study with recommendation for the installation of a new-type Univac Solid State 90 computer has been completed, and has received Board approval. Rental of the new unit will result in the replacement of our two smaller Univacs, providing greater speed, flexibility and storage capacity.

The first phase for installation of a teletype car-reporting system has been accomplished with the installation of circuits and equipment on the Fitchburg Division. The system will provide the Central Data Processing Division with up-to-the minute information for processing into traffic reports for traffic, sales and service use.

PERSONNEL CHANGES

On January 28, 1959, Mr. Edward Krock, of North Brookfield, Massachusetts, became a member of the Board of Directors.

At the annual meeting of stockholders, held April 8, 1959, in Boston, the three senior vice presidents of the company were elected to the Board of Directors. They are Mr. Daniel A. Benson, of Weston, Massachusetts; Mr. George F. Glacy, of Brookline, Massachusetts; and Mr. Patrick J. Mullaney, of Winchester, Massachusetts.

Mr. William L. Phinney, of Goffstown, New Hampshire, who was elected to the Board of Directors at the annual meeting on April 13, 1955, did not run for reelection at the 1959 annual meeting.

On September 23, 1959, Mr. Maynard W. Bullis, of Boston, who was elected to the Board of Directors at the annual meeting on April 13, 1955, offered his resignation, and was succeeded by Mr. Anthony R. Cataldo, of Lexington, Massachusetts, who became a member of the Board, effective September 23, 1959.

On February 2, 1959, Mr. E. Franklin Reed, of Melrose, Massa-

chusetts, who had been serving as Manager-Industrial Development, was named Vice President-Industrial Development.

On April 1, 1959, Mr. Ernest K. Bloss, of Greenwood, Massachusetts, who had been General Mechanical Superintendent, was named Director of Research and Development.

On June 23, 1959, Mr. Neal J. Holland, of Boston, was named General Counsel. Mr. Holland had been serving as Acting General Counsel, and previously was General Attorney.

On November 1, 1959, Mr. Thomas K. Dyer, of Lexington, Massachusetts, was named Chief Engineer. Mr. Dyer had been serving as Engineer-Maintenance of Way.

Mr. Stanley G. Phillips, of Melrose, Massachusetts, retired as Vice President-Engineering, effective February 29, 1960, after 43 years of loyal and efficient service.

LONG-TERM DEBT CHANGES

| | |
|---|----------------------|
| Balance at beginning of year | \$110,945,309 |
| Increases: | |
| Collateral Trust Indenture dated June 1, 1959 maturing serially to June 1, 1974. | 3,000,000 |
| Equipment and Road-Property obligations ac- count of new acquisitions. | 77,200 |
| Total increases | <u>3,077,200</u> |
| Decreases: | |
| Series A, 4½% Bonds reacquired | 105,000 |
| Equipment and Road-Property obligations dis- charged | 5,547,695 |
| Principal payments made on Collateral Notes and Collateral Trust Indenture | 300,000 |
| Total decreases | <u>5,952,695</u> |
| Net decrease | 2,875,495 |
| Notes re-written during the year (long-term to short-term) | 2,710,000 |
| Net change during the year (decrease) | <u>5,585,495</u> |
| Balance at end of year | <u>\$105,359,814</u> |

FIRST MORTGAGE BONDS MODIFICATION PLAN

On September 23, 1959, an application for approval of the Railroad's First Mortgage Bonds Modification Plan, proposing to exchange \$48,983,800 principal amount of Series RR 4% Bonds due July 1, 1960, and \$902,000 principal amount of Series JJ 4½% Bonds due April 1, 1961, for \$49,885,800 new First Mortgage Bonds Series SS 6% due 1961-1965, was filed with the Interstate Commerce Commission, Finance Docket No. 20836. It is proposed that the effective date of the Plan will be not later than July 1, 1960.

The new Series SS bonds will mature serially August 1, 1961 to August 1, 1965 in principal amounts equal to 2% in each of the years 1961 through 1964 of the aggregate principal amount initially issued and the balance of 92% thereof on August 1, 1965. A public hearing was held by the Commission on November 3 in Washington before Examiner Homer H. Kirby and orally argued before the full Commission on December 22, 1959.

A favorable Commission decision was issued on February 25, 1960, effective March 30, 1960. This decision granted the application as filed, approving the plan for submission to bondholders for their formal assents. The law requires 75 per cent assent of the bondholders affected. During the months of April and May the management will be engaged in soliciting the required assents.

**5% GUARANTEED NOTES
DUE JUNE 1, 1974**

Under the provisions of Part V of the Interstate Commerce Act, as amended (Public Law 85-625, approved August 15, 1958), application was made December 1, 1958, to the Interstate Commerce Commission for the guarantee of a loan of \$10,500,000. This application was modified under date of March 4, 1959, reducing the amount of the loan requested to \$6,000,000. The Commission eventually agreed to guarantee a loan to the Railroad of \$3,000,000, and on June 25, 1959, a loan of \$3,000,000 was received under these provisions, and \$3,000,000 aggregate principal amount of Boston and Maine Railroad 5% Guaranteed Notes, due serially to June 1, 1974, were issued privately, with the Bankers Trust Company of New York as Trustee. The Collateral Trust Indenture dated June 1, 1959, provides for partial prepayments on December 1, 1959, and on the first day of each and every June and December subsequent thereto, in the principal amount of \$100,000.

Boston and Maine Railroad Series RR 4% Bonds in the principal amount of \$1,906,500 due July 1, 1960, 14,152 shares of capital stock of Northern Railroad, 9,370 shares of capital stock of Vermont & Massachusetts Railroad and 629 shares of capital stock of Stony Brook Railroad Corporation owned by the Company were deposited with the Trustee as collateral. The Northern Railroad, the Vermont & Massachusetts Railroad and the Stony Brook Railroad are leased lines of the Boston and Maine Railroad.

LAND DAMAGES

The so-called Central Artery Case, involving damages to the Railroad by virtue of construction of the John F. Fitzgerald Expressway over and through the terminal property in the North Station area, has been in litigation for approximately nine years.

The case was settled with court approval in December, 1959, with a satisfactory payment to the Railroad and its subsidiary, covering consequential damages.

The settlement also included a release in full of the Commonwealth of Massachusetts' claim against the Railroad in excess of \$1,000,000 for moneys previously paid the Railroad for costs of relocation of facilities, etc., during the pendency of the litigation.

CENTRALIZED TRAFFIC CONTROL

Conditional Sale Agreement dated as of November 10, 1959, has been executed with General Railway Signal Company for the purchase and installation of CTC system at Dover, New Hampshire. The aggregate estimated cost is \$280,000. The terms are 20% down on December 1, 1960, and the balance in 60 equal monthly installments through the Genesee Valley Union Trust Company of Rochester, New York.

PORLAND TERMINAL COMPANY

The Boston and Maine Railroad is a tenant of the Portland Terminal Company under an old contract, expiring June 5, 1961. Your management has endeavored to come to an understanding with the owners of the Terminal Company in order to reduce its share of the substantial expenses for the use of these facilities, but without success.

Notice, therefore, has been served to the effect that we do not plan to continue to use these facilities beyond the expiration date of the present contract.

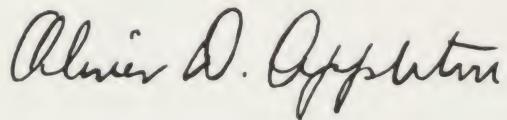
EMPLOYEES

The directors and officers of the Company wish to thank its employees for their efforts in a year that presented great difficulties.

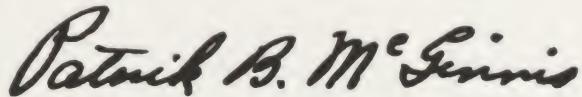
CONCLUSION:

The year 1959 was a trying one for American industry and the Railroads. The steel strike, coming soon after the economy had taken a turn for the better, was discouraging after the spring and early summer traffic volume indicated a good business year.

Most business forecasts call for a rapidly-growing economy for 1960. Your Railroad in 1960 should produce substantial profits.



Chairman of the Board



President

BOSTON AND MAINE RAILROAD

ASSETS

CURRENT ASSETS:

| | |
|---|----------------------|
| Cash | \$ 1,441,071 |
| U. S. Government bonds, at cost (value based on market quotations-\$4,137,500) (Note 2) | 4,551,250 |
| Special deposits | 1,088,251 |
| Accounts receivable | 6,561,358 |
| Inventories of materials and supplies, at cost | 3,944,124 |
| Prepayments and other current assets | 248,319 |
| TOTAL CURRENT ASSETS | \$ 17,834,373 |

PROPERTIES (Note 3):

| | |
|---|---------------|
| Roadway and structures (including improvements to leased property-\$11,843,121) | \$189,725,048 |
| Equipment | 77,404,560 |
| | <hr/> |
| | \$267,129,608 |
| Less: | |
| Depreciation of roadway and structures | (12,800,933) |
| Depreciation of equipment | (15,487,031) |
| Donations and grants | (192,872) |
| | <hr/> |
| \$238,648,772 | |
| Miscellaneous physical properties, less depreciation of \$431,723.. | 2,135,925 |
| | <hr/> |
| | 240,784,697 |

INVESTMENTS AND OTHER ASSETS:

| | |
|--|---------------|
| Investments in leased lines (Page 31) | \$ 2,991,802 |
| Investments in and advances to subsidiaries and other affiliated companies (Page 31) | 4,000,762 |
| Other investments | 347,299 |
| Deposits with trustees for first mortgage bonds and equipment obligations: | |
| Cash | 235,067 |
| Notes and accounts receivable | 883,457 |
| Other assets and deferred charges | 1,871,729 |
| | <hr/> |
| | 10,330,116 |
| | <hr/> |
| | \$268,949,186 |
| | <hr/> |

LIABILITIES AND CAPITAL

CURRENT LIABILITIES:

| | |
|---|----------------------|
| Notes payable to banks, secured (Note 2) | \$ 2,710,000 |
| Accounts payable | 9,249,329 |
| Accrued vacation pay | 1,719,347 |
| Accrued interest | 1,379,287 |
| State and local taxes | 2,362,626 |
| Estimated current portion of injury and damage claims | 1,489,914 |
| TOTAL CURRENT LIABILITIES (excluding long-term debt due within one year) | \$ 18,910,503 |

LONG-TERM DEBT (page 32):

| | |
|---------------------------------------|---------------|
| First mortgage bonds | \$ 50,398,300 |
| Income mortgage bonds | 18,826,500 |
| Equipment and other obligations | 36,135,014 |

105,359,814

OTHER LIABILITIES AND DEFERRED CREDITS:

| | |
|--|--------------|
| Provision for disputed per diem charges (Note 5) | \$ 5,486,342 |
| Provision for injury and damage claims | 1,076,543 |
| Accrued depreciation—leased property | 1,733,324 |
| Unearned interest accrued on income mortgage bonds | 1,506,120 |
| Other | 1,378,863 |

11,181,192

CAPITAL AND RETAINED INCOME:

Capital stock (Note 6):

5% Preferred stock, \$100 par value:

| | |
|---|--------------|
| Authorized—272,062 shares | |
| Issued (excluding 5,266 shares held in treasury)— 266,440 shares | \$26,644,000 |

Common stock, no par value:

| | |
|-------------------------------|------------|
| Authorized—1,078,852 shares | |
| Issued — 545,878 shares | 54,587,800 |

\$81,231,800

| | |
|--|------------|
| Additional capital (Note 7) | 27,573,239 |
| Retained income (page 30) (Note 8) | 24,692,638 |

133,497,677

Contingent obligations and commitments, etc. (Note 9)

\$268,949,186

BOSTON AND MAINE RAILROAD

STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 1959

OPERATING REVENUES:

| | |
|-----------------|---------------------|
| Freight | \$58,555,840 |
| Passenger | 7,088,480 |
| Other | 6,350,542 |
| | <u>\$71,994,862</u> |

OPERATING EXPENSES:

| | |
|---|---------------------|
| Transportation | \$32,533,980 |
| Maintenance of way and structures | 9,242,135 |
| Maintenance of equipment | 10,417,037 |
| Traffic, general and miscellaneous expenses | 6,372,763 |
| NET REVENUE FROM RAILWAY OPERATIONS | <u>58,565,915</u> |
| | <u>\$13,428,947</u> |

OTHER OPERATING CHARGES:

| | |
|---|---------------------|
| Payroll, property and state excise taxes, etc. | \$ 5,879,294 |
| Net rents for equipment and joint facilities | 6,330,618 |
| NET OPERATING INCOME | <u>\$ 1,219,035</u> |
| | <u>239,890</u> |

NONOPERATING INCOME—NET

| | |
|--|---------------------|
| NET INCOME BEFORE FIXED CHARGES AND CONTINGENT INTEREST | <u>\$ 1,458,925</u> |
|--|---------------------|

FIXED CHARGES:

| | |
|---|----------------------|
| Rent for leased lines, etc. | \$ 474,930 |
| Fixed interest: | |
| First mortgage bonds | 2,046,900 |
| Equipment trust certificates | 761,752 |
| Conditional sale contracts | 899,749 |
| Other | 249,438 |
| Amortization of long-term debt discount and expense | 38,448 |
| NET LOSS BEFORE CONTINGENT INTEREST | <u>4,471,217</u> |
| CONTINGENT INTEREST | <u>\$(3,012,292)</u> |
| NET LOSS | <u>753,060</u> |
| | <u>\$(3,765,352)</u> |

STATEMENT OF RETAINED INCOME

YEAR ENDED DECEMBER 31, 1959

| | |
|--|---------------------|
| BALANCE, DECEMBER 31, 1958 | \$41,959,990 |
| ADDITIONS (deductions) FOR THE YEAR: | |
| Net loss | (3,765,352) |
| Adjustment of accumulated depreciation of roadway, structures and equipment resulting from abnormal retirements | (11,078,541) |
| Net gains on disposal of land | 952,617 |
| Losses on retirement of track | (1,894,071) |
| Adjustment of prior years' provisions for injury and damage claims | |
| Excess of par value over cost of income mortgage bonds of the Rail- road reacquired | (1,293,692) |
| Other deductions—net | 56,526 |
| | (244,839) |
| BALANCE, DECEMBER 31, 1959 | <u>\$24,692,638</u> |

BOSTON AND MAINE RAILROAD
STATEMENT OF INVESTMENTS IN LEASED LINES
DECEMBER 31, 1959

| | No. of shares owned | % owned | Cost | Approximate value based on current market quotations |
|--|---------------------------|------------|-------------|--|
| Northern Railroad | 14,963 | 48.8 | \$1,690,921 | \$1,347,000 |
| Stony Brook Railroad | 829 | 27.6 | 79,471 | 62,000 |
| Vermont & Massachusetts Railroad | 10,235 | 32.1 | 1,221,410 | 768,000 |
| | | | \$2,991,802 | \$2,177,000 |

The shares in leased line companies have been acquired over the period from 1937 to 1959. Shares included above of an aggregate cost of \$2,835,720 were pledged at December 31, 1959 to secure 5% guaranteed notes due June 1, 1974 (Page 32). Annual rentals of the leased lines, under long-term leases, amount to approximately \$405,000 plus federal income taxes of the leased line companies which currently aggregate about \$200,000 per year. Dividends received on the holdings of shares of the leased line companies amounted to \$147,000 in 1959.

**STATEMENT OF INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES
AND OTHER AFFILIATED COMPANIES**
DECEMBER 31, 1959

| | Investments | | | Net assets of subsidiaries |
|---|-------------------------|--------------------------|--------------------------------------|-------------------------------|
| | in capital stocks | Notes and advances | Total investments and advances | |
| WHOLLY-OWNED SUBSIDIARIES: | | | | |
| Boston & Maine Transportation Company . . . | \$100,038 | \$1,123,988 | \$1,224,026 | \$ 909,346 |
| North Station Industrial Building, Inc. (a) . . . | 1,002 | 873,444 | 874,446 | 1,832,644 |
| North Station Hotel Building, Inc. (b) . . . | 100 | 192,885 | 192,985 | 438,045 |
| The Mystic Terminal Company | 5,000 | 80,000 | 85,000 | 85,000 |
| Springfield Terminal Railway Company . . . | 186,030 | | 186,030 | 365,367 |
| Charlestown Waterfront Facilities, Inc. | 300,000 | 13,860 | 313,860 | 297,138 |
| Pine Tree Corporation | 50,000 | | 50,000 | 43,129 |
| Connecticut River Valley Company, Inc. . . . | 5,000 | 152,784 | 157,784 | 156,811 |
| B & M Railroad Radio Co., Inc. | 1,000 | | 1,000 | 897 |
| | \$648,170 | \$2,436,961 | \$3,085,131 | \$4,128,377 |
| OTHER AFFILIATED COMPANIES: | | | | |
| Railway Express Agency, Inc. | 2,300 | 665,058 | 667,358 | |
| Pullman Company | 190,772 | | 190,772 | |
| Trailer Train Company | 50,000 | | 50,000 | |
| Troy Union Railroad Company (25% owned) | 7,500 | 1 | 7,501 | |
| | \$898,742 | \$3,102,020 | \$4,000,762 | |

(a) The capital stock of North Station Industrial Building, Inc. is held by the trustee under the first mortgage indenture in lieu of mortgaged property sold.

(b) The capital stock of North Station Hotel Building, Inc. is pledged to secure indebtedness of this subsidiary.

BOSTON AND MAINE RAILROAD STATEMENT OF LONG-TERM DEBT DECEMBER 31, 1959

| | Total outstanding (a) | Amount due within one year |
|--|--------------------------|----------------------------------|
| FIRST MORTGAGE BONDS (b): | | |
| Series RR 4%, due July 1, 1960 | \$ 47,077,300 | (c) |
| Series JJ 4½%, due April 1, 1961 | 897,000 | (c) |
| Series AC 5%, due September 1, 1967 | 2,424,000 | — |
| | <u>\$ 50,398,300</u> | |
| INCOME MORTGAGE BONDS, Series A, 4½% (4% cumulative), due July 1, 1970 (d) | <u>\$ 18,826,500</u> | — |
| EQUIPMENT AND OTHER OBLIGATIONS: | | |
| 5% Guaranteed notes due June 1, 1974, secured under a collateral trust indenture by pledge of \$1,960,500 principal amount of Boston and Maine Railroad Series RR 4% first mortgage bonds and capital stock of three leased lines carried at \$2,835,720. These notes are guaranteed by the United States Government under the Interstate Commerce Act | \$ 2,900,000 | \$ 200,000 (e) |
| Equipment Trust Certificates, Series I, 4½% to 6%, due March 1, 1971, secured by 34 Budd cars and 1,992 freight cars of an aggregate original cost of \$23,558,071 and by \$63,006 of cash held by the trustee in lieu of 8 freight cars destroyed and not replaced.. | 14,805,000 | 1,234,000 (e) |
| Conditional sale contracts maturing at various dates from January, 1960 to October, 1969, secured by 180 locomotives, 70 Budd cars, 9 other passenger cars, 2 loaders, 1 crane and 2 central traffic control installations, of an aggregate original cost of \$40,661,307 | 18,430,014 | 3,556,391 (f) |
| | <u>\$ 36,135,014</u> | <u>\$4,990,391</u> |
| | <u>\$105,359,814</u> | |

(a) Amounts outstanding are exclusive of bonds owned by the Railroad—\$1,906,500 of Series RR bonds pledged against the 5% guaranteed notes (as above), \$5,000 of Series JJ and \$641,000 of Series AC bonds held by the first mortgage trustee, and \$436,000 of income mortgage bonds which are unpledged.

(b) The first mortgage bonds are secured by substantially all the road properties and equipment of the Railroad, its operating franchises, leases and agreements, and its investment in the capital stock of Troy Union Railroad Company, subject to the prior lien of equipment trust obligations and conditional sale contracts in the case of certain property and equipment as indicated in the statement above. Interest is payable semiannually at the indicated rates for the several series. The Series RR bonds are entitled to the benefit of a sinking fund provision under which the Railroad is required annually, on or before May 1, to deposit with the trustee \$679,102 in cash or Series RR bonds (at the lesser of their principal amount plus accrued interest, or their cost to the Railroad) if "available net income" (as defined in the indenture) is sufficient.

(c) With respect to the Series RR and JJ first mortgage bonds, a proposed refunding plan, approved by the Interstate Commerce Commission for submission to bondholders for assents, provides for the issuance of a new re-

funding 6% series of bonds, Series SS, of the same principal amount. The new series of bonds would mature in the amount of approximately \$1,000,000 each on August 1, 1961, 1962, 1963 and 1964 and the remainder on August 1, 1965. The proposed refunding plan further provides for an annual sinking fund payment equal to 1% of the amount of bonds which would mature on August 1, 1965, or approximately \$460,000 per annum, if "available net income" is sufficient.

(d) The income mortgage bonds are secured by a second mortgage on the same properties as those securing the first mortgage bonds. Interest is payable at the rate of 4½% per annum if "available net income" is sufficient, and, if not earned, is cumulative and payable not later than the maturity of the bonds at the rate of 4% per annum. The income mortgage bonds are entitled to the benefit of a sinking fund provision under which the Railroad is required annually, on or before September 1, to deposit with the trustee \$482,870 in cash or Series A bonds (at the lesser of their principal amount plus accrued interest, or their cost to the Railroad) if "available net income" is sufficient.

(e) The same amounts mature within each subsequent year to maturity.

(f) Maturities within succeeding years are in gradually declining amounts.

Note 1—Subsidiary Companies

The accompanying financial statements are those of the Boston and Maine Railroad without consolidation of the assets, liabilities and operating accounts of certain wholly-owned subsidiaries of the Railroad engaged in truck transportation, real estate, hotel and other types of operation. The investments in and advances to these subsidiaries are shown on Page 31. The excess of losses over profits from the operation of the subsidiaries in 1959, amounting to \$169,466, is not reflected in the accompanying statement of income.

Note 2—Pledge of Certain Assets

U. S. Government bonds carried at cost of \$3,647,500 (approximate market \$3,320,000) were pledged as at December 31, 1959 to secure \$2,710,000 of notes payable to banks. Other assets pledged include the mortgaged properties (referred to on Page 32), a portion of the capital stocks of leased lines (Page 31), the capital stocks of certain subsidiaries (Page 31), and cash and receivables shown on the balance sheet as deposits with trustees for first mortgage bonds and equipment obligations. Mortgage bonds of the Railroad owned by the Railroad and not included in the balance sheet either as assets or liabilities are pledged as indicated in footnote (a) on Page 32.

Note 3—Road and Equipment Properties

The amount shown in the balance sheet for roadway and structures represents the aggregate of acquisitions and additions (by merger, purchase, construction or otherwise), less retirements, recorded under the system of accounting prescribed by the Interstate Commerce Commission. In accordance with such accounting requirements the Railroad commenced providing for depreciation on these assets, other than property such as rail, ties, ballast and other track materials, as of January 1, 1943. The recorded cost, less salvage, of depreciable properties retired since January 1, 1943 has been charged to accrued depreciation accumulated since that date. Retirements,

less salvage, of properties considered nondepreciable (rail, ties, ballast, etc.) have been charged to current operating expense, except that, with the permission of the Interstate Commerce Commission, certain retirements of nondepreciable properties in recent years which were considered abnormal have been charged direct to retained income. Gains and losses on disposals of land have been credited or charged to retained income.

The amount shown in the balance sheet for equipment represents cost to the Railroad of equipment owned. Most of the equipment was acquired during the past ten years and has been subjected to a systematic policy of amortization of cost based on estimated useful life.

The accompanying statement of income includes charges for depreciation of road and equipment properties totaling \$5,028,694.

Note 4—Federal Income Taxes

As of December 31, 1959 the Railroad had loss carryovers for federal income tax purposes aggregating approximately \$17,000,000, of which about \$1,000,000 would be available to apply against income through the year 1962, \$8,600,000 through 1963 and \$7,400,000 through 1964.

Note 5—Provision for Disputed Per Diem Charges

The Boston and Maine Railroad is party to a dispute with other railroads over per diem rates for car rentals. For various reasons, including its situation as a so-called terminal line, the Railroad incurs more rentals than it earns. For several years payment has been made to other railroads at rates which are less than the rates adopted by the Association of American Railroads, although full provision has been made on the books at the adopted rates, all by charges against income. The excess of amounts thus provided for on the books amounted to \$5,486,342 as of December 31, 1959. The excess of amounts accrued and charged to income over payments during 1959 amounted to \$887,083. Further information regarding this dispute is set forth on Page 6.

Note 6—Capital Stock and Stock Options

The 5% Preferred Stock is redeemable at any time at \$100 per share plus accumulated unpaid dividends, and is convertible at the option of the holder into common stock at the rate of 1½ shares of common stock for each share of preferred stock. Conversion of all of the issued preferred stock would require 475,486 shares of the authorized and unissued common stock. Dividends on preferred stock, if not paid, are cumulative only if and to the extent (not exceeding 5% per annum) that earnings are available. On this basis there were no cumulative unpaid dividends at December 31, 1959. If earnings are sufficient, the Railroad is required to set aside annually one half of one per cent of the par value of the authorized preferred stock as a sinking fund for redemption of preferred stock, before dividends are paid on the common stock. The sinking fund obligation is cumulative only to the extent earned. There was no cumulative sinking fund obligation as at December 31, 1959.

In 1956 the stockholders of the Railroad approved an employee stock option plan under which options to purchase 50,000 shares of common stock of the Railroad could be granted at the fair market value at the time granted. Such options generally become exercisable in installments over a five year period and remain exercisable until ten years after the date of the grant. The following options, granted prior to 1959, were outstanding as of December 31, 1959:

| <i>Option price</i> | <i>Shares optioned</i> | <i>Shares for which options were exercisable</i> |
|---------------------|------------------------|--|
| \$26% | 25,000 | 15,000 |
| 16 | 11,775 | 4,710 |
| 9½ | 5,242 | 2,096 |
| 10% | <u>7,213</u> | <u>1,442</u> |
| | <u>49,230</u> | <u>23,248</u> |

During 1959 the directors voted, subject to approval by the Interstate Commerce Commission, if necessary, to reduce the option price for the 25,000 shares from \$26% per share to \$9 per share, the then current market value. No options had been exercised to December 31, 1959.

Note 7—Additional Capital

The additional capital account increased by \$226,005 during 1959. The increase is represented almost entirely by the transfer from issued capital stock of the par value of 356.8 shares of preferred stock and the stated value of 1,730.51 shares of common stock (in each case \$100 per share) with respect to which the exchange privilege provided for under the 1950 Recapitalization Plan (effective May 21, 1953) expired during the year.

Note 8—Dividend Restrictions

The indentures securing the first mortgage bonds and the income mortgage bonds contain provisions for the application of available net income. Certain requirements of said provisions have not been met due to lack of available net income, and before the Railroad can pay any dividends on or purchase any of its capital stock of any class, it would have to meet the requirements of said provisions. In addition the Railroad has entered into an agreement with the Interstate Commerce Commission in connection with its Government guaranteed loan in the amount of \$2,900,000 which provides restrictions on the payment of dividends under certain conditions.

Note 9—Contingent Obligations and Commitments, Etc.

In addition to the matters referred to elsewhere in the financial statements and notes, the Railroad had the following contingent obligations and commitments at December 31, 1959:

The Railroad rents 2,677 freight cars under five to fifteen year leases. Current annual rentals under the various leases amount to approximately \$1,300,000. Certain of these leases provide for substantially lower rentals after an initial term of six years.

The Railroad is guarantor of \$159,000 principal amount of 3% first mortgage bonds issued by its wholly-owned subsidiary, North Station Industrial Building, Inc. This obligation was paid by the subsidiary in 1960.

Together with other participating railroads, the Railroad has guaranteed repayment of equipment obligations of Trailer Train Company, which at December 31, 1959 amounted to approximately \$28,120,589.

Under certain conditions the Railroad could be required

to make additional payments under a service interruption insurance policy carried jointly with other railroads.

Employment agreements covering periods of up to ten years have been entered into with certain officers. The current annual amount of compensation under these agreements is approximately \$175,000.

The Railroad is plaintiff or defendant in numerous law-suits and subject to other claims in connection with personal injuries, property damages and other matters.

Adequate provision for liabilities thereunder is believed to be included in the financial statements.

The Railroad has a retirement income plan for substantially all monthly salaried employees. Income for 1959 has been charged with \$143,000 under the plan, an amount calculated to be sufficient to provide for normal cost plus interest on the unfunded past service credits. At December 31, 1959 the unfunded past service credits amounted to approximately \$1,900,000.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS
OF THE BOSTON AND MAINE RAILROAD

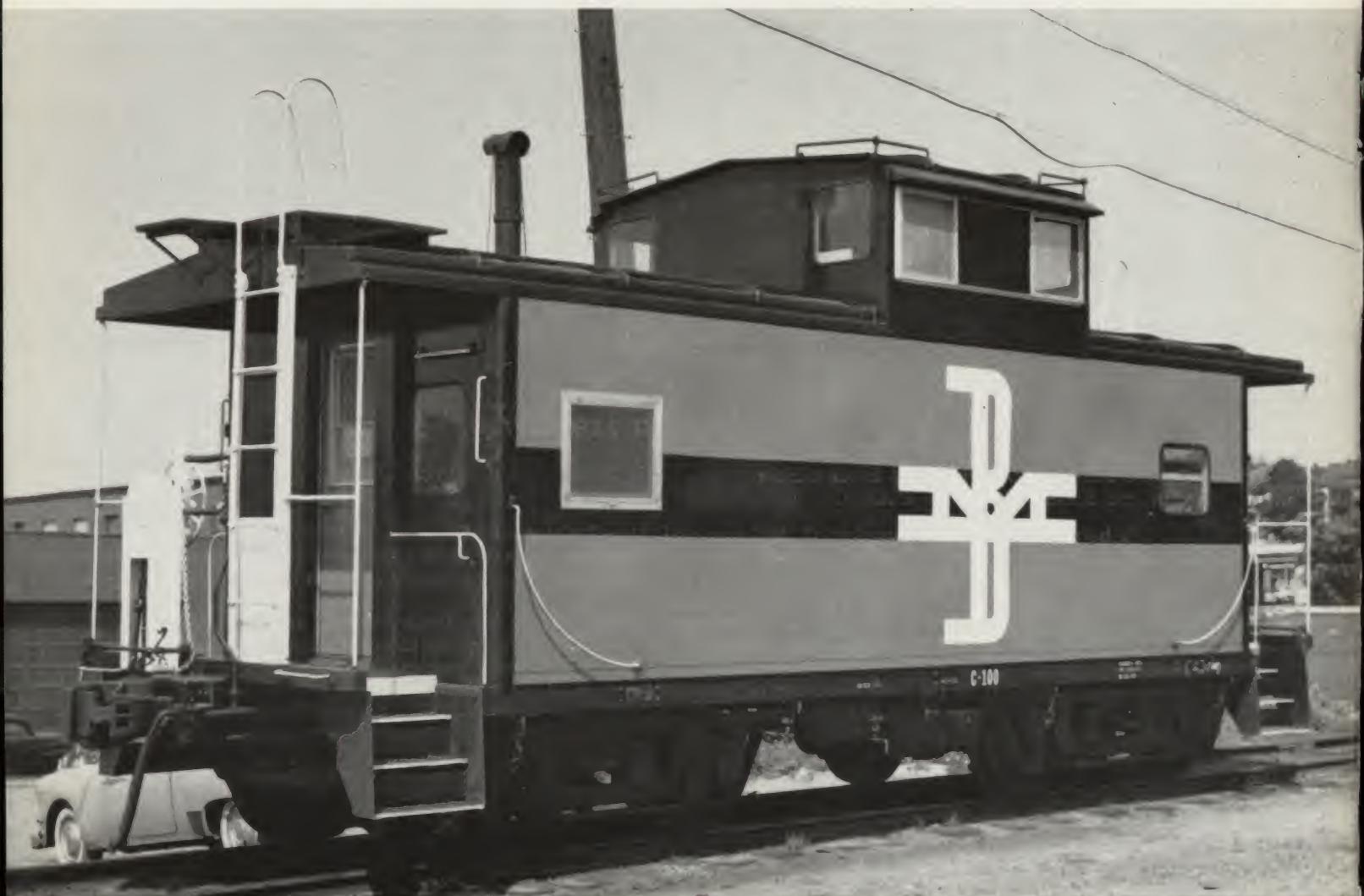
We have examined the balance sheet of the Boston and Maine Railroad as of December 31, 1959 and the statements of income and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The depreciation reserves for roadway and structures (accumulated only since January 1, 1943, as indicated in Note 3 of the notes to financial statements) are substantially less than amounts which would have resulted from a systematic amortization of the cost of the properties since their acquisition. It would be impracticable, however, to reconstruct these accounts on the latter basis, and no reasonable estimate of the amount of the deficiency is therefore possible. Furthermore, the roadway and structures accounts include substantial amounts for branch lines, estimated at between 25% and 40% of the total, which produce a relatively small portion of the Railroad's present revenues. This is a problem currently faced by other railroads. It is severe in the case of the Boston and Maine Railroad, which serves an area where railroad lines were built early and to a highly concentrated extent. There is no present general plan to abandon these branch lines, but, if a continuance of the trend toward obsolescence of this type of facility should warrant abandonment, such action would result in a substantial reduction in the amount at which roadway and structures are carried in the balance sheet and in the amount of the retained income account.

In our opinion, subject to the deficiency in accumulated depreciation reserves on roadway and structures mentioned in the preceding paragraph, the financial statements referred to above present fairly the financial position of the Boston and Maine Railroad at December 31, 1959 and the results of its operations for the year, in conformity with accounting principles and practices prescribed or authorized by the Interstate Commerce Commission applied on a consistent basis.

PRICE WATERHOUSE & Co.

Boston, Massachusetts
March 3, 1960



One of 38 modern,
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